

esure Services Limited

Directors' report and financial statements

**For the year ended
31 December 2002**



esure Services Limited

Company information

Directors	P J Wood P J Graham
Secretary	S M MacDonald
Company number	2135610
Registered office	The Observatory Reigate Surrey RH2 0SG
Auditors	KPMG Audit Plc 8 Salisbury Square Blackfriars London EC4Y 8BB

esure Services Limited

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esure Services Limited

**Directors' report
For the year ended 31 December 2002**

The directors present their report and the financial statements for the year ended 31 December 2002.

Principal activities and review of business

The company is principally engaged as a service provider for other members of the esure group of companies.

During the year the company entered into a licence with esure Property Limited to occupy leasehold premises in Glasgow.

Results and dividends

The profit for the year, after taxation, amounted to £59,000 (2001 - £1,385,000) .

The directors recommend that no dividend be paid.

Directors

The directors who served during the year were:

P J Wood

P J Graham

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. The interests of P J Wood in the shares of esure Holdings Limited are disclosed in the directors' report of that company.

According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the year. The rights of P J Graham to subscribe for shares in the parent company are disclosed in the directors' report of that company. No other rights to subscribe for shares in the parent company were granted to any of the other directors or their immediate families.

Employees

The company provides, where possible, the same employee opportunities to disabled persons as to others and seeks to achieve a common awareness amongst staff of corporate objectives, performance and other matters of concern to them as employees.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board



Sue MacDonald

Company Secretary

5 February 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the shareholders of esure Services Limited

We have audited the financial statements of esure Services Limited for the year ended 31 December 2002 set out on pages 4 to 11.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Audit Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
5 February 2003

esure Services Limited

**Profit and loss account
For the year ended 31 December 2002**

	Note	2002 £000	2001 £000
Turnover	1, 2	59,742	41,452
Administrative expenses		(59,994)	(40,017)
Other operating income	3	250	-
Operating (loss)/profit	4	(2)	1,435
Interest receivable		46	37
Profit on ordinary activities before taxation		44	1,472
Tax on profit on ordinary activities	7	15	(87)
Retained profit for the financial year	14	59	1,385

All amounts relate to continuing operations.

There were no recognised gains and losses for 2002 or 2001 other than those included in the profit and loss account.

The notes on pages 6 to 11 form part of these financial statements.

esure Services Limited

Balance sheet
As at 31 December 2002

	Note	2002 £000	£000	2001 £000	£000
Fixed assets					
Tangible fixed assets	8		9,318		7,970
Current assets					
Debtors	9	8,917		1,524	
Cash at bank and in hand		653		1,153	
		<u>9,570</u>		<u>2,677</u>	
Creditors: amounts falling due within one year	10	<u>(19,082)</u>		<u>(10,531)</u>	
Net current liabilities			<u>(9,512)</u>		<u>(7,854)</u>
Total assets less current liabilities			<u>(194)</u>		<u>116</u>
Creditors: amounts falling due after more than one year	11		-		(388)
Provisions for liabilities and charges					
Deferred taxation	12		20		39
Net liabilities			<u>(174)</u>		<u>(233)</u>
Capital and reserves					
Profit and loss account	14		(174)		(233)
Shareholders' funds - all equity	15		<u>(174)</u>		<u>(233)</u>

The notes on pages 6 to 11 form part of these financial statements.

The financial statements were approved by the board on 5 February 2003 and signed on its behalf.



P J Graham
Chief Executive

esure Services Limited

Notes to the financial statements For the year ended 31 December 2002

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below. The company has adopted FRS 19 'Deferred tax' in these financial statements. The comparative figures did not require restatement because the impact was immaterial.

1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention.

The financial statements have been prepared according to the going concern basis, as esure Holdings Limited, the parent undertaking, has indicated that it will continue to provide financial and other support for the foreseeable future.

As the company is a wholly owned subsidiary of esure Holdings Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of esure Holdings Limited, within which this company is included, can be obtained from the address given in note 18.

1.2 Cash flow

The financial statements do not include a cash flow statement because the company is exempt from the requirement to prepare such a statement under the Financial Reporting Standard No. 1 (revised). The cash flows of the company are included in the consolidated group cash flow statements of esure Holdings Limited.

1.3 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and trade discounts.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Fixtures and fittings	-	3 to 8 years	straight line
Office equipment	-	3 years	straight line
Computer equipment	-	3 to 5 years	straight line

1.5 Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

esure Services Limited

Notes to the financial statements For the year ended 31 December 2002

1.6 Pensions

The company is a participating employer in both a defined contribution scheme and a defined benefit pension scheme, based upon final pensionable pay, operated by Halifax plc. The assets of the schemes are held separately from those of the company in independently administered funds.

In respect of the defined contribution scheme the amount charged against profits represents the contributions payable to the scheme in respect of the current accounting year.

For the defined benefit scheme the company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as permitted by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the current accounting year.

2. Turnover

The whole of the turnover is attributable to management fees received and receivable from within the United Kingdom.

3. Other operating income

	2002 £000	2001 £000
Government grants received	250	-

4. Operating (loss)/profit

The operating (loss)/profit is stated after charging:

	2002 £000	2001 £000
Depreciation of tangible fixed assets:		
- owned by the company	3,213	1,976
Auditors' remuneration	34	21

5. Staff costs

Staff costs were as follows:

	2002 £000	2001 £000
Wages and salaries	17,680	11,627
Social security costs	1,607	1,103
Other pension costs	485	294
	19,772	13,024

The average monthly number of employees, including directors, during the year was 711 (2001 - 453).

esure Services Limited

Notes to the financial statements For the year ended 31 December 2002

6. Directors' remuneration

Although the directors are employed and paid by the company, their emoluments are in respect of their duties as directors of esure Insurance Limited. Therefore their remuneration is disclosed in the financial statements of esure Insurance Limited and their interests in shares or options to purchase shares in the ultimate parent undertaking, esure Holdings Limited, in the directors' report of that company.

7. Taxation

	2002 £000	2001 £000
Analysis of tax charge in year		
Current tax (see note below)		
UK corporation tax on profits of the year	57	386
Adjustments in respect of prior periods	(91)	(94)
Total current tax	<u>(34)</u>	<u>292</u>
Deferred tax		
Origination and reversal of timing differences	19	(205)
Total deferred tax (see note 12)	<u>19</u>	<u>(205)</u>
Tax on profit on ordinary activities	<u>(15)</u>	<u>87</u>

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities before tax	44	1,472
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 - 30%)	13	442
Effects of:		
Capital allowances in excess of depreciation	44	(56)
Adjustments to tax charge in respect of prior periods	(91)	(94)
Current tax charge for year	<u>(34)</u>	<u>292</u>

There were no factors that may affect future tax charges.

esure Services Limited

Notes to the financial statements
For the year ended 31 December 2002

8. Tangible fixed assets

	Furniture, fittings and equipment £000
Cost	
At 1 January 2002	10,529
Additions	4,561
	<hr/>
At 31 December 2002	15,090
	<hr/>
Depreciation	
At 1 January 2002	2,559
Charge for the year	3,213
	<hr/>
At 31 December 2002	5,772
	<hr/>
Net book value	
At 31 December 2002	9,318
	<hr/>
At 31 December 2001	7,970
	<hr/>

9. Debtors

	2002 £000	2001 £000
Due within one year		
Amounts owed by group undertakings	8,087	1,415
Prepayments and accrued income	830	109
	<hr/>	<hr/>
	8,917	1,524
	<hr/>	<hr/>

10. Creditors:
Amounts falling due within one year

	2002 £000	2001 £000
Amounts owed to group undertakings	5,367	6
Other creditors (see note 18)	5,763	7,001
Accruals and deferred income	7,952	3,524
	<hr/>	<hr/>
	19,082	10,531
	<hr/>	<hr/>

esure Services Limited

Notes to the financial statements
For the year ended 31 December 2002

11. Creditors:
Amounts falling due after more than one year

	2002 £000	2001 £000
Other creditors	-	388

12. Deferred taxation

	2002 £000	2001 £000
At 1 January	(39)	166
Charge for/(released during) the year	19	(205)
At 31 December	(20)	(39)

The provision for deferred taxation is made up as follows:

	2002 £000	2001 £000
Capital allowances	35	16
Other timing differences	(55)	(55)
	(20)	(39)

There were no amounts not provided.

13. Share capital

	2002 £	2001 £
Authorised, allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2

14. Reserves

	£000
Profit and loss account	
At 1 January 2002	(233)
Profit retained for the year	59
At 31 December 2002	(174)

esure Services Limited

Notes to the financial statements For the year ended 31 December 2002

15. Reconciliation of movement in shareholders' funds

	2002 £000	2001 £000
Profit for the year	59	1,385
	<u>59</u>	<u>1,385</u>
Opening shareholders' funds	(233)	(1,618)
Closing shareholders' funds	<u>(174)</u>	<u>(233)</u>

16. Capital commitments

At 31 December 2002 the company had capital commitments as follows:

	2002 £000	2001 £000
Contracted for but not provided in these financial statements	463	1,496

17. Pension commitments

The company is a participating employer in both a defined contribution pension scheme and a defined benefit pension scheme, based on final pensionable pay, operated by Halifax plc. 18 employees participate in the defined benefit scheme, the Halifax Retirement Fund (HRF). Disclosures in respect of this fund under both a SSAP 24 basis and under the transitional rule in Financial Reporting Standard No.17 are given in total in the Halifax plc accounts as it is not practicable to apportion the underlying assets and liabilities. The current deficit on the HRF on a FRS 17 basis at 31 December 2002 is £560m.

The pension cost charge for the period represents contributions payable by the company to both pension schemes and amounted to £306,000 (2001 - £97,000) for the defined contribution scheme and £179,000 (2001 - £197,000) for the defined benefit scheme. There were no outstanding or prepaid contributions for either scheme at either the beginning or end of the financial year.

18. Ultimate parent undertaking and related party disclosures

The company is a wholly owned subsidiary undertaking of esure Holdings Limited, a company incorporated in Great Britain and the results of the company will be included within the consolidated financial statements of esure Holdings Limited. The registered office of esure Holdings Limited is The Observatory, Reigate, Surrey RH2 0SG.

The ultimate parent company, while not controlled by, is ultimately majority owned by HBOS plc, a company incorporated in Scotland. The results of the esure group will be included within those of HBOS plc on the basis of a joint venture relationship with a participating interest.

As noted above, employees of the company are offered membership of pension schemes operated by Halifax plc. Administration costs associated with participation by employees of the company will be recharged to the company on a cost basis.